

VILLAGE OF POWERS, MICHIGAN

Annual Financial Report

February 28, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Powers	County Menominee
Audit Date 2/28/05	Opinion Date 4/27/05	Date Accountant Report Submitted to State: 8/15/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

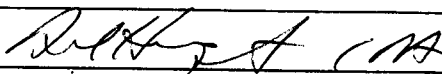
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

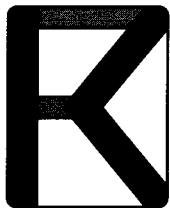
Certified Public Accountant (Firm Name) Kerber, Rose & Associates, S.C.			
Street Address 1727 Stephenson Street		City Marinette	State WI
Accountant Signature 		ZIP 54143	Date 8/15/05

VILLAGE OF POWERS, MICHIGAN

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KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Village Board
Village of Powers
Powers, Michigan

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Powers, Michigan (Village), as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of March 1, 2004.

The Village has not presented management's discussion and analysis which is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2005, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kerber, Rose & Associates, S.C.

KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

April 27, 2005

BASIC FINANCIAL STATEMENTS

VILLAGE OF POWERS, MICHIGAN

Statement of Net Assets

As of February 28, 2005

	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and Investments	\$ 690,284	\$ 226,499	\$ 916,783
Receivables			
Taxes	391	-	391
Accounts	-	12,456	12,456
Due from Other Governments	18,341	306	18,647
Restricted Cash and Investments	-	23,942	23,942
Capital Assets:			
Capital Assets Not Being Depreciated	13,971	16,000	29,971
Other Capital Assets, Net of Depreciation	52,020	1,816,670	1,868,690
TOTAL ASSETS	<u>775,007</u>	<u>2,095,873</u>	<u>2,870,880</u>
LIABILITIES:			
Accounts Payable	2,609	2,072	4,681
Accrued Interest	-	3,888	3,888
Long-Term Obligations:			
Due Within One Year	-	7,000	7,000
Due in More Than One Year	-	520,000	520,000
TOTAL LIABILITIES	<u>2,609</u>	<u>532,960</u>	<u>535,569</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	65,991	1,305,670	1,371,661
Restricted for:			
Debt Service/Replacement	-	23,942	23,942
Unrestricted	706,407	233,301	939,708
TOTAL NET ASSETS	<u>\$ 772,398</u>	<u>\$ 1,562,913</u>	<u>\$ 2,335,311</u>

See Accompanying Notes

VILLAGE OF POWERS, MICHIGAN

Statement of Activities

For the Year Ended February 28, 2005

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Totals
Governmental Activities:							
General Government	\$ 43,100	\$ -	\$ -	\$ -	\$ (43,100)	\$ -	\$ (43,100)
Public Works	23,972	-	50,326	-	26,354	-	26,354
Community Enrichment Services	3,779	-	-	-	(3,779)	-	(3,779)
Total Governmental Activities	70,851	-	50,326	-	(20,525)	-	(20,525)
BUSINESS TYPE ACTIVITIES:							
Sewer	126,133	120,268	-	-	-	(5,865)	(5,865)
Total Business Type Activities	126,133	120,268	-	-	-	(5,865)	(5,865)
Total	\$ 196,984	\$ 120,268	\$ 50,326	\$ -	(20,525)	(5,865)	(26,390)
General Revenues:							
Taxes:							
Property Taxes					10,141	-	10,141
Intergovernmental Revenues not Restricted to Specific Programs					39,829	-	39,829
Investment Income					11,962	3,886	15,848
Total General Revenues					61,932	3,886	65,818
CHANGE IN NET ASSETS					41,407	(1,979)	39,428
NET ASSETS - BEGINNING OF YEAR					730,991	1,564,892	2,295,883
NET ASSETS - END OF YEAR					\$ 772,398	\$ 1,562,913	\$ 2,335,311

See Accompanying Notes

VILLAGE OF POWERS, MICHIGAN

Balance Sheet
Governmental Funds
February 28, 2005

	Governmental Fund Types			
	General	Major Street	Local Street	Total Governmental Funds
ASSETS:				
Cash and Investments	\$ 199,742	\$ 268,263	\$ 222,279	\$ 690,284
Receivables - Taxes	391	-	-	391
Due from Other Governmental Units	9,691	6,843	1,807	18,341
TOTAL ASSETS	<u>\$ 209,824</u>	<u>\$ 275,106</u>	<u>\$ 224,086</u>	<u>\$ 709,016</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 2,004	\$ 411	\$ -	\$ 2,415
Accrued Liabilities	194	-	-	194
Total Liabilities	<u>2,198</u>	<u>411</u>	<u>-</u>	<u>2,609</u>
FUND BALANCES:				
Unreserved/Undesignated	207,626	274,695	224,086	706,407
Total Fund Balances	<u>207,626</u>	<u>274,695</u>	<u>224,086</u>	<u>706,407</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 209,824</u>	<u>\$ 275,106</u>	<u>\$ 224,086</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.				65,991
NET ASSETS OF GOVERNMENTAL FUNDS				<u>\$ 772,398</u>

VILLAGE OF POWERS, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended February 28, 2005

	Governmental Fund Type			
	General	Major Street	Local Street	Total Governmental Fund
REVENUES:				
Taxes	\$ 10,141	\$ -	\$ -	\$ 10,141
Intergovernmental	39,829	39,823	10,503	90,155
Interest Income	3,408	4,377	4,177	11,962
Miscellaneous	4,132	-	-	4,132
TOTAL REVENUES	57,510	44,200	14,680	116,390
EXPENDITURES:				
Current				
General Government	42,005	-	-	42,005
Highways, Streets and Public Works	10,034	6,450	4,259	20,743
Community Services	3,779	-	-	3,779
Capital Outlay	21,578	1,750	1,750	25,078
TOTAL EXPENDITURES	77,396	8,200	6,009	91,605
NET CHANGE IN FUND BALANCES	(19,886)	36,000	8,671	24,785
FUND BALANCES - BEGINNING	227,512	238,695	215,415	681,622
FUND BALANCES - ENDING	\$ 207,626	\$ 274,695	\$ 224,086	\$ 706,407

See Accompanying Notes

VILLAGE OF POWERS, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 24,785

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets the cost of these assets are capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities. This is the amount by which Village capital outlays plus capital contributions \$25,078 exceeded depreciation \$4,324 in the current period.

20,754

In the statement of activities the sale of property is reported as a gain or loss. The governmental funds report the sale of property as a current financial resource.

Sale of Property	4,132
Gain on Sales	_____

(4,132)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES -
STATEMENT OF ACTIVITIES**

\$ 41,407

VILLAGE OF POWERS, MICHIGAN

Statement of Net Assets

Proprietary Funds

February 28, 2005

Sewer Fund

CURRENT ASSETS:

Cash and Investments	\$ 226,499
Customer Accounts Receivable	12,456
Due From Other Governmental Units	306
Total Current Assets	239,261

NON-CURRENT ASSETS:

Restricted Assets	
Bond Reserve Fund	3,420
Bond Redemption Fund	987
Replacement Fund	19,535
Capital Assets:	
Sewer	
Plant in Service	2,760,408
Accumulated Depreciation	(927,738)
Total Non-Current Assets	1,856,612
Total Assets	2,095,873

CURRENT LIABILITIES:

Current Portion of General Obligation Debt	7,000
Accounts Payable	2,072
Accrued Interest	3,888
Total Current Liabilities	12,960

NON-CURRENT LIABILITIES:

General Obligation Debt	520,000
Total Liabilities	532,960

NET ASSETS:

Invested in Capital Assets, Net of Related Debt	1,305,670
Restricted	23,942
Unrestricted	233,301
TOTAL NET ASSETS	\$ 1,562,913

See Accompanying Notes

VILLAGE OF POWERS, MICHIGAN
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended February 28, 2005



OPERATING REVENUES	\$ 120,268
OPERATING EXPENSES:	
Operation and Maintenance	45,912
Depreciation	55,921
Taxes	479
Total Operating Expenses	<u>102,312</u>
OPERATING INCOME	<u>17,956</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Income	3,886
Interest Expense	(23,821)
Total Non-Operating Revenue	<u>(19,935)</u>
CHANGE IN NET ASSETS	(1,979)
TOTAL NET ASSETS - BEGINNING	<u>1,564,892</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 1,562,913</u></u>

See Accompanying Notes

VILLAGE OF POWERS, MICHIGAN
Statement of Cash Flows - Proprietary Fund
For the Year Ended February 28, 2005

Sewer Fund

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Customers	\$ 122,484
Cash Received from Governmental Units	5,517
Cash Paid to Suppliers for Goods and Services	(46,873)
Cash Paid to Employees for Services	(10,813)
Net Cash Flows from Operating Activities	<u>70,315</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment Income Received	<u>3,886</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and Construction of Capital Assets	(8,470)
Principal Paid	(7,000)
Interest Paid	(23,872)
Net Cash from Capital and Related Financing Activities	<u>(39,342)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS	34,859
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CASH AND CASH EQUIVALENTS - BEGINNING	<u>215,582</u>
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CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 250,441</u>
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VILLAGE OF POWERS, MICHIGAN
Statement of Cash Flows - Proprietary Fund - Continued
For the Year Ended February 28, 2005

Sewer Fund

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating Income	\$ 17,956
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Non-cash Items Included in Income	
Depreciation	55,921
Change in Non-Cash Components of Working Capital:	
Accounts Receivable	3,092
Due to Other Governmental Units	5,517
Accounts Payable	(11,295)
Deferred Revenue	(876)

NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 70,315
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**RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT
OF NET ASSETS TO STATEMENT OF CASH FLOWS:**

Amounts Per Statement of Net Assets - Proprietary Funds:	
Unrestricted Cash and Investments	\$ 226,499
Restricted Cash and Investments	23,942

CASH AND CASH EQUIVALENTS PER COMBINED STATEMENT OF CASH FLOWS	\$ 250,441
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VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

INTRODUCTION

The financial statements of the Village of Powers, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Village are described in the following paragraphs.

REPORTING ENTITY

This report includes all of the funds of the Village of Powers. The reporting entity for the Village consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. On this basis, the financial statements of a related organization listed below is not included in the financial statements of the Village.

Water services are provided through a related organization with the Powers-Spalding Water Authority which is a separate government entity.

BASIS OF FINANCIAL STATEMENT PRESENTATION

GASB Statement No. 34, among many other changes, adds two new "Government-Wide" financial statements as financial statements required for all governmental units. The Statement of Net Assets and the Statement of Activities are the two new required statements.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, GASB 34 and 37 concentrate on major funds versus non-major funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Village does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Taxes and other items not properly included as program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer utility enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into individual funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

Funds are organized as major funds or non-major funds within the governmental, proprietary and fiduciary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type and
- b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or proprietary fund that the Village believes is particularly important to financial statement users may be reported as a major fund.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FUND FINANCIAL STATEMENTS (Continued)

Governmental Funds

Governmental funds are identified as either general, special revenue, debt service and capital projects based upon the following guidelines.

General Fund

The general fund is the primary operating fund of the Village and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term principal, interest, and related costs.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Business Type Activities

Proprietary Funds

Enterprise Funds

Enterprise funds may be used to account for activities where a fee is charged to external users for goods and services. Enterprise activities must include operations (a) that are financed with debt that is secured solely by the pledge of the net revenues of the fund, or (b) where laws or regulations require that the costs of the activity be recovered with fees and charges or (c) where the fees and charges are priced in a way designed to recover the costs of the activity.

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds are used to account for assets held by the Village as an agent for individuals, private organizations, and/or other governmental units.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FUND FINANCIAL STATEMENTS (Continued)

Major Funds

The Village reports the following major governmental funds:

The *general fund*, which accounts for the Village's primary operating activities.

The *major street fund*, which accounts for major street activities designated by the state.

The *local street fund*, which accounts for local street activities designated by the state.

The Village reports the following major proprietary fund:

The *sewer fund*, which operates the sewage treatment plant, sewage pumping stations and collection systems.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide and proprietary fund financial statements report using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Village gives or receives value without directly, receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Village may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the Village's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

The proprietary funds are prepared following the Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with Governmental Accounting Standards Board (GASB) pronouncements.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

BUDGETARY CONTROL

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- During the year, Village management submits to the Village Board a proposed operating budget for the calendar year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them. After submission to the governing body, public hearings are held to obtain taxpayer comments. Following the public hearings, the proposed budget, including authorized additions and deletions, is legally enacted by Village Board action.
- Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. Budget is defined as the originally approved budget plus or minus approved amendments. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.
- During the year, formal budgetary integration is employed as a management control device for the general fund.
- Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the Village. There were no amendments to the budget during the year.

CASH AND INVESTMENTS

For purposes of the statement of cash flows, cash deposits and highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

RESTRICTED CASH

Enterprise Fund - Cash has been set aside to provide for debt retirement and replacement of certain sewer utility plant equipment.

ACCOUNTS RECEIVABLE

Accounts receivable in the Governmental Funds are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

INVENTORIES

Inventories of governmental fund types are expensed when purchased.

CAPITAL ASSETS

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements and used in governmental fund operations.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The Village has a capitalization threshold of \$500.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 Years
Machinery and Equipment	5 -10 Years
Utility System	50 Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Additions to and replacement of utility plant are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

LONG-TERM OBLIGATIONS

The accounting treatment of long-term debt depends on whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. In governmental funds, debt issuance costs are reported as expenditures. The accounting in proprietary funds is the same in the fund statements as it is in the government-wide statements.

BASIS FOR EXISTING RATES

Sewer Utility – New wastewater rates were approved by the Village Board and became effective April 2004.

CLAIMS AND JUDGMENTS

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncement are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental fund types. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide and proprietary funds statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

ENCUMBRANCES

Encumbrances outstanding represent the estimated amount of expenditures ultimately to result if unperformed contracts and open purchase orders at year end are fulfilled. Encumbrances outstanding at year end are reported as reservations of fund balance and do not represent liabilities or expenditures. Encumbrance accounting applies only to governmental fund types. There were no encumbrances outstanding at year end.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

EQUITY CLASSIFICATIONS

Equity is classified as net assets and displayed in three components.

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from these estimates.

NOTE 2 - CASH AND INVESTMENTS:

Deposits in local and area banks are insured by a federal agency in the amount of \$100,000 of demand deposits and \$100,000 in time deposits.

Cash and investments at February 28, 2005, are comprised of the following:

Unrestricted	\$	916,783
Restricted		23,942
	\$	<u>940,725</u>

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued):

The Village is authorized to invest its funds in accordance with Michigan Statutes. Allowable investments are as follows:

Time deposits, direct obligations of the United States Treasury, United States repurchase agreements, Banker Alliances of U.S. Banks, Commercial Paper, in certain Mutual funds, and Investment pools.

The Village's deposits are categorized below in accordance with GASB Standards No. 3 to give an indication of the level of credit risk assumed by the Village at year-end. These categories do not disclose market risk, nor do they measure the risk that an insurer of securities would be unable to fulfill its obligations. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the Village or its agent in the Village's name.
- Category 2 - Collateralized with securities held by the pledge of financial institution's trust department or agent in the Village's name.
- Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledge of financial institutions, or its trust department or agent but not in the Village's name.

	Category			Bank Balance	Carrying Amount
	1	2	3		
Local and Area Banks	\$ 300,000	\$ -	\$ 575,973	\$ 875,973	\$ 940,725

The Village had no significant type of investment during the year not included in the above schedule.

For all deposits and investments shown, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

NOTE 3 - PROPERTY TAXES:

The Village bills and collects its own property taxes.

Property taxes consist of taxes on real estate. They are levied during August and are due on October 15. Delinquent real property taxes are turned over to the county and collected.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 4 – RESTRICTED ASSETS:

Bond Reserve Fund

The Utility has established a bond reserve fund to report resources set aside to cover potential future deficiencies in the redemption account. The balance in this account as of February 28, 2005 was \$3,420.

Bond Redemption Fund

The Utility has established a bond redemption fund to report resources accumulated for debt service payments over the next twelve months. The balance in this account as of February 28, 2005 was \$987.

Replacement Fund

The Utility has established a replacement fund to report resources set aside to fund plant renewals and replacement or cover potential future deficiencies in the redemption account. The balance in this account as of February 28, 2005 was \$19,535.

NOTE 5 - CAPITAL ASSETS:

Capital asset balances and activity for the year ended February 28, 2005 were as follows:

	Balance 3/1/04	Increases	Decreases	Balance 2/28/05
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ -	\$ 18,103	\$ 4,132	\$ 13,971
Other Capital Assets:				
Buildings	54,000	-	-	54,000
Machinery and Equipment	31,945	6,975	-	38,920
Total Capital Assets being Depreciated	85,945	6,975	-	92,920
Total Capital Assets	85,945	25,078	4,132	106,891
Less: Accumulated Depreciation for:				
Building	23,060	1,080	-	24,140
Machinery and Equipment	13,516	3,244	-	16,760
Total Accumulated Depreciation	36,576	4,324	-	40,900
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 49,369	\$ 20,754	\$ 4,132	\$ 65,991

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 5 - CAPITAL ASSETS (Continued):

Business Type Activities:

	Balance 3/1/04	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 2/28/05
Capital Assets Not Being Depreciated:				
Land	\$ 16,000	\$ -	\$ -	\$ 16,000
Capital Assets Being Depreciated:				
Machinery and Equipment	70,721	8,470	-	79,191
Improvements Other Than Buildings	2,665,217	-	-	2,665,217
Total Capital Assets Being Depreciated	2,735,938	8,470	-	2,744,408
Total Capital Assets	2,752,938	8,470	-	2,760,408
Less: Accumulated Depreciation for:				
Machinery and Equipment	58,576	2,617	-	61,193
Improvements Other Than Building	813,241	53,304	-	866,545
Total Accumulated Depreciation	871,817	55,921	-	927,738
Capital Assets, Net of Accumulated Depreciation	\$ 1,880,121	\$ (47,451)	\$ -	\$ 1,832,670

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 1,095
Public Works	3,229
Total Governmental Activities Depreciation Expense	<u>\$ 4,324</u>

Business-Type Activities:

Sewer	55,921
Total Business-Type Activities Depreciation Expense	<u>\$ 55,921</u>

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 6 - LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligations of the Village for the year ended February 28, 2005:

	Balance 3/1/04	Increases	Decreases	Balance 2/28/05	Due Within One Year
Business-Type Activities:					
Revenue Bonds	\$ 534,000	\$ -	\$ 7,000	\$ 527,000	\$ 7,000

	Date of Issuance	Final Maturity	Interest Rates	Original Indebtedness	Balance 2/28/05
Business Type Activities: Long-Term Obligations: Revenue Bond	11/07/97	11/07/38	4.5%	\$ 570,000	\$ 527,000

Debt service requirements to maturity are as follows:

Years	Business Type Long-Term Debt	
	Principal	Interest
2006	\$ 7,000	\$ 23,715
2007	8,000	23,400
2008	8,000	23,040
2009	8,000	22,680
2010	9,000	22,320
2011-2015	49,000	105,390
2016-2020	61,000	93,285
2021-2025	77,000	78,210
2026-2030	95,000	59,400
2031-2035	120,000	35,775
2036-2038	85,000	7,785
Total	\$ 527,000	\$ 495,000

NOTE 7 - LEASES:

The Village has no material leases as lessee or lessor.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 8 - NET ASSETS/FUND BALANCES:

Net assets reported on the government wide statement of net assets at February 28, 2005 includes the following:

Invested in Capital Assets, Net of Related Debt:	
Capital Assets, Net of Accumulated Depreciation	\$ 1,898,661
Less: Related Long-Term Debt Outstanding, less Unspent Portion	(527,000)
Total Invested in Capital Assets	<u>1,371,661</u>
Net Assets Restricted For:	
Debt Service/Replacement	23,942
Unrestricted	<u>939,708</u>
Total Net Assets – Government-Wide Statements	<u>\$ 2,335,311</u>

Fund balances reported in the governmental funds balance sheet at February 28, 2005 are further classified as follows:

Unreserved/Undesignated	\$ 706,407
Total Governmental Funds' Fund Balance	<u>\$ 706,407</u>

NOTE 9 - INDIVIDUAL FUNDS DISCLOSURES:

The general fund had the following excess of expenditures over the budget for the year ended February 28, 2005.

General Fund:	
Highways, Street and Public Works	\$ 3,034
Community Service	779
Capital Outlay	11,578

NOTE 10 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims; and environmental damage for which the Village purchases commercial insurance. There has been no reduction in insurance coverage from the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in the past year.

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES:

The Village has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

From time to time, the Village is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Village's attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Village's financial position or results of operations.

Funding for the operating budget of the Village comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits, and other miscellaneous revenues. The State of Michigan provides a variety of aid and grant programs which benefit the Village. Those aid and grant programs are dependent on continued approval and funding by the Michigan governor and legislature, through their budget processes. The State of Michigan is currently experiencing budget problems, and is considering numerous alternatives including reducing the aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the Village.

NOTE 12 - KEY FINANCIAL DATA OF ENTERPRISE ACTIVITIES:

The Powers Sewer Fund provides services which are financed by user charges. The key financial data for the year ended February 28, 2005 for those services are as follows:

	Sewer Fund
Operating Revenues	\$ 120,268
Operating Expenses:	
Depreciation	55,921
Other	46,391
Operating Income	<u>\$ 17,956</u>
Net Loss	<u>(\$ 1,979)</u>
Total Assets	<u>\$ 2,095,873</u>
Net Working Capital	<u>\$ 226,301</u>
Total Net Assets	<u>\$ 1,562,913</u>
Property, Plant and Equipment Additions	<u>\$ 8,470</u>
General Obligation Long-Term Debt Payable	<u>\$ 527,000</u>

VILLAGE OF POWERS, MICHIGAN

Notes to Financial Statements

February 28, 2005

NOTE 13 – JOINTLY GOVERNED ORGANIZATION:

The Village in conjunction with the Township of Spalding and Pinecrest Medical Care Facility, have created the Powers-Spalding Water Authority. The Powers-Spalding Water Authority's board is composed of two members from each municipality and two members from Pinecrest. The Village paid an annual fee of \$6,000 for operations to the Water Authority for the year ending February 28, 2005.

**REQUIRED
SUPPLEMENTAL
INFORMATION**

VILLAGE OF POWERS, MICHIGAN
General Fund
Budgetary Comparison Schedule
For the Year Ended February 28, 2005

	Budgeted Amounts		Variance with
	Original & Final	Actual Amounts	Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 9,000	\$ 10,141	\$ 1,141
Intergovernmental	40,000	39,829	(171)
Interest Income	6,000	3,408	(2,592)
Miscellaneous	-	4,132	4,132
TOTAL REVENUE	<u>55,000</u>	<u>57,510</u>	<u>2,510</u>
EXPENDITURES:			
Current:			
General Government	41,350	34,805	6,545
Highways, Street and Public Works	14,200	17,234	(3,034)
Community Services	3,000	3,779	(779)
Capital Outlay	10,000	21,578	(11,578)
TOTAL EXPENDITURES	<u>68,550</u>	<u>77,396</u>	<u>(8,846)</u>
NET CHANGES IN FUND BALANCES	(13,550)	(19,886)	(6,336)
FUND BALANCES - BEGINNING	<u>227,512</u>	<u>227,512</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 213,962</u>	<u>\$ 207,626</u>	<u>\$ (6,336)</u>

VILLAGE OF POWERS, MICHIGAN

Major Street

Budgetary Comparison Schedule

For the Year Ended February 28, 2005

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 38,000	\$ 39,823	\$ 1,823
Interest Income	6,000	4,377	(1,623)
TOTAL REVENUE	<u>44,000</u>	<u>44,200</u>	<u>200</u>
EXPENDITURES:			
Current:			
Highways, Street and Public Works	12,900	6,450	6,450
Capital Outlay	31,100	1,750	29,350
TOTAL EXPENDITURES	<u>44,000</u>	<u>8,200</u>	<u>35,800</u>
NET CHANGES IN FUND BALANCES	-	36,000	36,000
FUND BALANCES - BEGINNING	<u>238,695</u>	<u>238,695</u>	-
FUND BALANCES - ENDING	<u>\$ 238,695</u>	<u>\$ 274,695</u>	<u>\$ 36,000</u>

VILLAGE OF POWERS, MICHIGAN

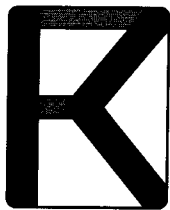
Local Street

Budgetary Comparison Schedule

For the Year Ended February 28, 2005

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 10,000	\$ 10,503	\$ 503
Interest Income	5,000	4,177	(823)
TOTAL REVENUE	<u>15,000</u>	<u>14,680</u>	<u>(320)</u>
EXPENDITURES:			
Current:			
Highways, Street and Public Works	8,000	4,259	3,741
Capital Outlay	7,000	1,750	5,250
TOTAL EXPENDITURES	<u>15,000</u>	<u>6,009</u>	<u>8,991</u>
NET CHANGES IN FUND BALANCES	-	8,671	8,671
FUND BALANCES - BEGINNING	<u>215,415</u>	<u>215,415</u>	-
FUND BALANCES - ENDING	<u>\$ 215,415</u>	<u>\$ 224,086</u>	<u>\$ 8,671</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT



KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Board
Village of Powers
Powers, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Powers (Village), Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated April 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

Most of the Village's cash and financial reporting duties are performed by a limited number of employees. Although these limited number of employees are segregating their duties as much as possible, some of the aspects of internal control which rely upon an adequate segregation of duties are missing.

We recognize that the Village is not large enough to make the employment of additional persons for the purpose of segregating duties practical from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition referred to above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Village Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

April 27, 2005